

Canada Bread Company, Limited



2003 Annual Report

Canada Bread is a leading manufacturer and marketer of value-added flour based products, including fresh bread, rolls, bagels and sweet goods, frozen partially baked or par-baked breads and bagels, and specialty pasta and sauces. The Company markets products under a number of leading brand names, including *Dempster's*, *Olafson's*, *POM*, *Ben's* and *Olivieri*.

Canada Bread employs more than 7,000 people at its operations in Canada, the United States and the United Kingdom. The Company is 84.7% owned by Maple Leaf Foods Inc. and its common shares are listed on the Toronto Stock Exchange under the symbol CBY.

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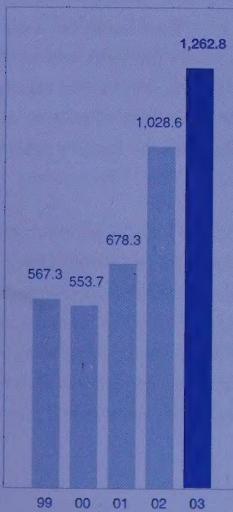
Financial Highlights

(in millions of Canadian dollars except share information)

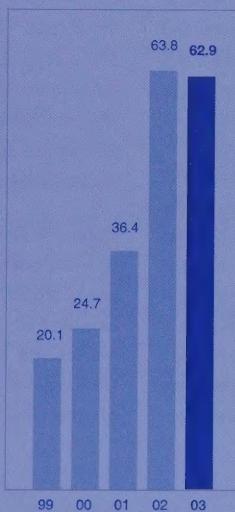
	2003	2002	2001	2000	1999
Consolidated results					
Sales	\$ 1,262.8	\$ 1,028.6	\$ 678.3	\$ 553.7	\$ 567.3
Earnings from operations before restructuring costs (i)	62.9	63.8	36.4	24.7	20.1
Net earnings	35.6	38.7	20.9	17.2	6.3
Per share					
Net earnings	\$ 1.42	\$ 1.80	\$ 0.97	\$ 0.80	\$ 0.29
Dividends	0.24	0.24	0.24	0.24	0.24
Book value (ii)	16.42	13.29	11.73	10.99	10.79
Number of shares (millions)					
Weighted average	25.1	21.4	21.4	21.4	21.4
Outstanding at December 31	25.4	21.4	21.4	21.4	21.4

(i) Before taking into account restructuring costs of \$7.4 million in 2003 and \$8.4 million in 1999.

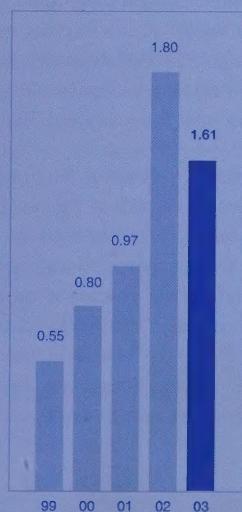
(ii) Excludes equity component of long-term debt.



SALES
(millions of dollars)



EARNINGS FROM OPERATIONS
Before restructuring costs
(millions of dollars)



EARNINGS PER SHARE
Before restructuring costs (dollars)

Message to Shareholders

Canada Bread's financial results in 2003 reflect a year of growth and challenge, balanced by a strong underlying performance in the business. Sales increased 23% to \$1.3 billion, while operating earnings before restructuring costs were \$62.9 million compared to \$63.8 million last year. Net earnings for 2003 were \$35.6 million or \$1.42 per share.

The Challenges

A labour dispute at our Quebec distribution centre cost Canada Bread \$7.4 million in 2003 and posed a significant setback to achieving higher operating profits. While conceding to demands could have lessened the near-term impact, this would not have served the Company well long-term. Instead, management focused on delivering uninterrupted service to customers, and actually grew sales during this challenging period.

In 2003, our fresh bakery operation began integrating the acquisition of Ben's and Olafson's bakeries, as well as working to optimize our production and distribution networks. In our Atlantic Canada operations, this posed a negative near-term impact to earnings as we closed plants and consolidated distribution routes. These initiatives will maximize utilization at our remaining bakery plants and allow us to meet customer needs more efficiently.

Our frozen bakery operation felt the impact of a significant rise in flour prices early in the year. With the U.S. bakery industry challenged by over capacity – as well as increased costs for energy, packaging materials and labour – it was a slow and difficult process to pass on increased input costs to customers. This was compounded by the impact of equipment start-up issues in our new frozen bakery acquisition in Northern California. For strategic reasons, we have focused our fresh bakery business in Canada and our

frozen par-baked business within our U.S. operations, where we have market leadership in a more consolidated, higher-growth market. During the second half of 2003, several large new customers were secured which will continue the business on its growth trajectory. Enhancements to the U.S. operations have been identified and solutions are being implemented during the first quarter of 2004, and we are now managing to offset increased input costs with necessary pricing increases.

The Wins

Our fresh bakery operations, represented coast-to-coast by leading regional brands like Olafson's, POM, Bon Matin and Ben's – and nationally by our flagship brand *Dempster's* – made real gains in 2003. The year saw fresh bread volumes grow significantly, largely driven by the launch of *Dempster's Stays Fresh to the Last Slice™*. This product innovation, launched last spring, generated double-digit growth in the mature sliced bread market, revitalizing what was a declining category in Canada. Reflecting the talent and creativity of our product innovation team, the *Dempster's Stays Fresh to the Last Slice™* unique CelloFoil™ wrapping and quality attributes have taken the extended shelf life proposition direct to the consumer, with winning results. It's one example of how our commitment to innovation, quality and service serves to maintain Canada Bread's position as the Canadian market leader.

Under the *Dempster's* brand, we have launched new lines of multi-grain breads, including Flax, along with a new line of organic bread products in Quebec. *Dempster's* has established strong consumer loyalty based on its wholesome and healthy-choice market position. While we have not experienced any volume decline as a result of the low-carbohydrate diet movement, we are

introducing *Dempster's Carb Wise™* and *Healthy Way Carb Conscious™* bread products to provide an alternative for consumers.

Our commitment to innovation, quality and service serves to maintain Canada Bread's position as the Canadian market leader.

Our frozen par-baked operations grew sales and market share in 2003, driven by major new in-store and food service accounts. We lead the U.S. in-store retail bakery business and our expertise has now hit the Canadian market, where use of par-baked technology is in its infancy. Today, customers at a leading Canadian national retailer can purchase hot bread – cycle baked throughout the day to reach shoppers at peak periods – made possible by our high quality, par-baked products.

Customized par-baked products provide customers with a point of difference based on their superior quality, freshness and taste. Here, Canada Bread has a distinct advantage: with the largest frozen bakery network in North America, we can supply virtually all major North American population centres within a day.

In the U.K., our business achieved high growth rates as consumer demand for bagels continues to soar. We are now expanding our bakery capabilities in the U.K. to meet rising demand for bagels in both the U.K. and continental Europe. We are also expanding our product offerings to include hand-held snacks that will be produced at our newest facility in Cumbria, England.

Our Strategy

Our focus is to grow market share in the bread business, largely through increasing consumption and demand. This is not as strange as it seems. The market potential in North America for fresh and specialty breads is vast. Europeans, for example, consume two to three times more bread than the average North American. Why? Because they benefit from higher quality products, wider variety and greater distribution. In Europe, bread is part of the meal occasion, while in North America we tend to relegate bread to breakfast and sandwiches. The key to increased consumption is innovation: developing new and value-added products. The par-baked innovation, and the breakthrough this provides in increased flexibility to prepare hot-bread on demand, and to customize products in a cost-effective manner (think calamata olive, herb and cheese loaves!) makes our strategy very achievable. Par-baked has been a tremendous success in the U.S., and we estimate this market is growing by up to 20% annually – by far the fastest growing market segment in the bakery business.

In the past year, Maple Leaf Foods Inc. increased its ownership of Canada Bread to almost 85%. Operating as a full-fledged member of the Maple Leaf Foods family has provided us the significant benefits of Six Sigma, leadership development programs and functional support and expertise that allows us to focus on what we know best.

We will continue to lead in premium quality markets. We will do this by driving product innovation, building demand through creative promotions, and developing more points of contact than traditional retail distribution. The Canada Bread team is very excited about the year to come and the growth opportunities we are creating, driven by our passion for the bread business.



Richard A. Lan
President and
Chief Executive Officer



Michael H. McCain
Chairman of the Board

Management's Discussion and Analysis

OVERVIEW

The following is a discussion of the results of Canada Bread Company, Limited ("Canada Bread" or "the Company") for the year ended December 31, 2003.

Sales for the year increased 23% to \$1.3 billion from \$1.0 billion in 2002. Earnings from operations for the year were \$55.5 million compared to \$63.8 million last year. Included in earnings from operations in 2003 were restructuring costs of \$7.4 million (\$4.8 million after tax). Earnings from operations before these restructuring costs were \$62.9 million. Net earnings of \$35.6 million (\$1.42 per share) compared to \$38.7 million (\$1.80 per share) in 2002. After excluding the impact of restructuring costs, net earnings for the year were \$40.4 million (\$1.61 per share). Earnings per share in 2003 were also impacted by the issuance in January 2003 of four million shares (see Note 8 to the Consolidated Financial Statements).

Net interest expense in 2003 was \$8.4 million compared with \$3.8 million in 2002 due to higher debt levels. The Company's average effective cost of borrowing for 2003 was 3.2% (2002 - 3.1%) - (see Note 6 to the Consolidated Financial Statements).

The effective tax rate was 24.4% in 2003 (2002 - 35.8%). At the end of 2002, Canada Bread acquired operations outside Canada. The reduction in the tax rate is primarily attributable to rate differences in foreign jurisdictions. The Company's tax rate is discussed in Note 12 to the Consolidated Financial Statements.

RESULTS OF OPERATIONS

Sales increased 23% to \$1.3 billion in 2003 compared with \$1.0 billion in 2002. The increase was primarily due to acquisitions, primarily the purchase of the Maple Leaf Bakery assets in the U.S. and the U.K. Before accounting for acquisitions, sales for the year decreased by 4%. Although volume increased across all major product lines, the lower U.S. dollar reduced the value of sales in the United States. Earnings from operations before restructuring costs decreased 1% to \$62.9 million, compared with \$63.8 million in 2002. The decline in earnings was primarily due to \$7.4 million in costs associated with a labour dispute at a distribution centre in Quebec, which was settled in September. Excluding these costs, the Company would have recorded a 10% increase in earnings from operations, before restructuring costs, compared to last year driven primarily by the acquisition of the Maple Leaf Foods Inc. ("Maple Leaf") bakery assets in the U.S. and the U.K. This increase in earnings was dampened somewhat by costs associated with integrating bakeries and distribution routes in Atlantic Canada.

Fresh product sales were driven by price increases and improvements in market share behind the success of extended shelf life bread marketed under the *Dempster's Stays Fresh to the Last Slice™* brand.

Frozen product sales increased as new in-store bakery and food service business was secured in both the United States and Canada. Grace Baking Company, a recently acquired artisan bread Company, extended sales of its partially baked artisan bread products into Canada and new U.S. national retail accounts. The Company's U.K. bakery operations experienced strong sales growth rates as bagel demand continues to grow in the U.K. The U.K. operations are operating very close to capacity and are planning new capacity that will meet increasing customer demand and improve the quality of its product offerings.

Early in 2004, the Company announced the opening of a new par-baked line in its Roanoke, Virginia bakery built to service the needs of a major food service operator's locations in the Eastern United States.

Throughout the year, wheat prices, which directly affect the cost of flour, were volatile and increased towards the end of the year. The appreciation of the Canadian dollar has a positive effect on flour prices for Canadian-based operations, but did not completely offset the wheat price increase. In response, price increases were announced and reflected at almost all customers by the end of the year, limiting the effect of these increased costs on the Company's profitability. While flour costs have moderated somewhat, other factors such as energy, packaging materials and labour costs have also increased compared to last year, and although cost reduction initiatives can offset some of these impacts, the Company continues to pursue price increases in order to maintain acceptable gross margins.

A significant consumer trend in the bakery industry is the growing popularity of "low-carb" diets, that emphasizes protein products at the expense of high carbohydrate items such as bread. The Company has not seen any material impacts on overall bread sales, but there has been a shift from traditional white bread toward higher value-added whole-grain breads, a trend that favours the Company's product mix. Notwithstanding this, to benefit from these dietary trends, the Company is launching new "low-carb" bread offerings for consumers who wish to make this dietary choice.

RESTRUCTURING COSTS

During the first quarter, the Company recorded a \$7.4 million charge related to the closing of a London, Ontario bakery and transfer of its production to other bakeries, increasing system capacity utilization and efficiencies due to higher throughput and lower fixed costs.

The Company reflects these costs as a separate component of operating earnings and discusses the results of operations before incurrence of these costs as they are not representative of ongoing underlying operations.

ACQUISITIONS

In July 2003, the Company acquired Parisco Limited of Richmond Hill, Ontario for \$6.2 million. Parisco is a leading producer of Belgian style waffles.

In 2002, the Company acquired the remaining 40% of the shares of Ben's Limited in Atlantic Canada, to hold 100%.

In 2002, the Company acquired Olafson's Baking Company Inc. of Delta, British Columbia. Purchase consideration of \$14.7 million has been paid to date. Additional consideration, up to a maximum of \$7.0 million, may be payable depending on the attainment of certain financial targets, until February 28, 2004. Olafson's specializes in the production of premium value-added bakery products.

On December 27, 2002 the Company purchased all of Maple Leaf Foods' U.S. and U.K. bakery operations, including Grace Baking Company, for \$262.3 million, inclusive of debt of \$10.7 million. Completing the integration of these organizations will enhance growth opportunities and transform the Company from a Canadian baking company to a global baking company with significant capabilities across fresh, par-baked and artisan bread product lines. In January 2003, the Company issued four million shares to Maple Leaf from treasury at \$26.50 per share in a private placement transaction. Proceeds from the financing of \$106.0 million were used to pay down the Company's credit facility with Maple Leaf.

Details of assets and liabilities acquired in these acquisitions are set out in Note 15 to the Consolidated Financial Statements.

CASH FLOWS

Operating cash flow for the year of \$66.4 million compared to \$92.2 million last year. The major positive components of cash flow from operations were net earnings of \$35.6 million and non-cash depreciation of \$39.5 million. Working capital required a cash investment of \$6.0 million as reductions in accounts receivable were offset by lower accruals for taxes and accounts payable and accrued charges.

Capital expenditures for the year of \$63.8 million compared to \$20.7 million last year. The Company owns or leases approximately 35 manufacturing facilities, and a supporting network of distribution facilities and offices. These facilities require a minimum level of maintenance spending to keep them in appropriate condition, and the Company also has a strategy of continued re-investment in technology and process in these facilities that ensures relative competitiveness and reduces the cost of production. Over time, management estimates that the current level of facilities would require \$20 million to \$40 million of annual maintenance and investment capital. In addition to this, the Company will further invest in incremental production capacity where warranted. Management anticipates that future capital expenditure needs can be funded by internally generated cash.

CAPITAL RESOURCES AND LIQUIDITY

The bakery industry is generally characterized by high sales volumes and rapid turnover of inventories and accounts receivable. Investment in working capital is also affected to some extent by fluctuations in the prices of raw materials, seasonal and other market-related fluctuations.

Due to the stability of the industry and its successful operations, the Company has consistently generated a significant amount of operating cash. These operating cash flows provide a strong base of underlying liquidity, which the Company has supplemented with credit facilities to provide longer term funding required for its strategic investing activities.

To provide additional liquidity, the Company and its subsidiaries had aggregate credit facilities of \$277 million (2002 - \$363 million), of which \$180 million (2002 - \$308 million) was utilized (including \$7 million in respect of letters of credit) at December 31, 2003. The significant credit facilities are (i) a \$97 million facility established in 2001 with a syndicate of Canadian banks and (ii) a \$169 million revolving term facility provided by Maple Leaf.

The bank facility is comprised of a reducing revolving term tranche of \$77 million (2002 - \$99 million) and a revolving term facility of \$20 million, both maturing in July, 2005.

The facility provided by Maple Leaf is a revolving term facility that was established to finance the acquisition of Maple Leaf Bakeries in 2002. The terms, interest rates and covenants of this facility are substantially similar to those under the Company's bank facility. The facility currently matures in December, 2004 but may be extended, subject to certain conditions, to December 2005 at the option of Canada Bread. The facility permits prepayments without penalties and permits Canada Bread to repay up to \$20 million through the issuance of common shares of Canada Bread directly to Maple Leaf.

To access competitively priced financing, the Company operates an accounts receivable securitization program. At the year end, the Company had \$50 million (2002 - \$50 million) outstanding under this facility.

To ensure continued liquidity, the Company maintains its leverage at levels that provide access to investment grade credit. Management is of the opinion that its cash flow and sources of financing provide the Company with sufficient resources to finance ongoing business requirements and its planned capital expenditure program.

The following table provides information about certain of the Company's significant contractual obligations as at December 31, 2003:

	Payments due by fiscal year							
	Total	2004	2005	2006	2007	2008	There- after	
(millions of Cdn. \$)								
Long-term debt	\$173.7	\$ 26.9	\$146.3	\$ 0.1	\$ 0.1	\$ —	\$ 0.3	
Lease obligations	39.7	15.1	10.1	7.0	4.0	3.1	0.4	
	\$213.4	\$ 42.0	\$156.4	\$ 7.1	\$ 4.1	\$ 3.1	\$ 0.7	

As reflected in Note 13 to the Consolidated Financial Statements, in aggregate the Company's defined benefit pension plans were in deficit in the amount of \$14 million (2002 - \$13 million). The Company expects to fund these deficits from future cash flows and in 2003 contributed \$3 million into all of its pension plans.

DERIVATIVES

As part of its business, the Company is exposed to market risks from changes in commodity prices (primarily wheat), interest rates and foreign exchange rates. When considered appropriate, these exposures may be managed by the use of derivative financial instruments, including interest rate swaps, currency contracts, commodity futures and options. Information on the Company's material year end derivative hedge positions is set out in Note 7 to the Consolidated Financial Statements.

Management hedges commodities when it determines that conditions are appropriate to mitigate risks and reduce the risk of loss from adverse changes in commodity prices. The Company attempts to closely match commodity contract terms with the underlying hedged exposure, and continually measures the effectiveness of the hedge in place.

The Company enters into interest rate swaps that effectively fix a portion of the interest payment on its interest bearing debt and securitization program. At December 31, 2003, 16% (2002 - 17%) of the Company's exposure to interest rate fluctuations was hedged or fixed. The Company periodically enters into foreign exchange hedges to fix certain of its foreign currency exposure.

All hedging and derivative activity is transacted in accordance with risk management policies that specify both the type of allowed derivatives, maximum trading exposures and the definition of allowable hedge activity.

During 2003, there were no material derivative gains or losses related to ineffectiveness of hedges and no material hedges were discontinued in 2003 as a result of it becoming probable that a forecasted transaction would not occur.

The Company generally holds derivative contracts to maturity, as they are matched with the underlying commodity, interest rate or foreign exchange exposure. The financial impact, should the Company terminate and settle these arrangements, is disclosed in Note 7 to the Consolidated Financial Statements. There are no other obligations or liabilities under these arrangements that may require further funding by the Company.

RISK FACTORS

The Company operates in the food processing sector, and is therefore subject to risks and uncertainties related to this business that may have adverse effects on the Company's results of operations and financial position.

Food Safety and Consumer Health Risk: The Company is subject to risks that affect the food industry in general, including risks posed by food spoilage or contamination, consumer product liability, and the potential costs and disruptions of a product recall. The Company actively manages these risks by maintaining strict and rigorous controls and processes in its manufacturing facilities and distribution systems. The Company's facilities are subject to audit by government health agencies and the Company performs its own audits to ensure compliance with its internal standards, which are generally at or higher than regulatory agency standards. However, the Company cannot guarantee that compliance with procedures and regulations will necessarily mitigate risks related to food safety.

Foreign Currencies: A significant amount of the Company's revenues and costs are either denominated in or directly linked to other currencies (primarily U.S. dollars and Pounds Sterling). Due to the diversity of the Company's operations, normal fluctuations in these other currencies have relatively small impacts on the Company's profitability due to (a) "natural hedges", or offsetting currency exposures, for example when revenues and costs are both linked to other currencies or (b) an ability to change prices of its products to offset adverse currency movements.

CHANGE IN ACCOUNTING POLICIES

(a) Hedging relationships

New accounting rules for hedging relationships became effective on January 1, 2004. These guidelines established new criteria for what transactions qualify as hedging relationships. To qualify for hedge accounting, the hedging relationship must be appropriately documented at inception and there must be reasonable assurance, both at inception and throughout the term of the hedge, that the hedging relationship will be effective. Effectiveness requires a high correlation of changes in fair values or cash flows between the hedged item and the hedging item. The Company formally documented and re-assessed all hedging relationships to determine if the new criteria were met on December 31, 2003. All of the hedging instruments and relationships used by the Company at December 31, 2003, were determined to meet the criteria relative to hedge effectiveness, and these were the same types of instruments used, and hedging relationships identified, throughout 2003.

To the extent that a designated hedge item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

(b) Accounting for asset retirement obligations

Starting in 2004, new accounting rules require companies to record the fair value of an asset retirement obligation on the balance sheet as a liability (and corresponding asset) in the period in which the company incurs a legal obligation associated with the retirement of a long lived asset. The resulting asset will be amortized through earnings over the life of the asset. The Company is assessing the impact of this new standard.

(c) Financial Instruments

In January 2004, Canadian accounting rules changed to require obligations that may be settled, at the issuer's option, by a variable number of the issuer's own equity instruments to be presented as liabilities. Thus securities issued by an enterprise that give the issuer unrestricted rights to settle the principal amount in cash or in the equivalent value of its own equity instruments are no longer required to be presented as equity. This change will require the Company's convertible debt currently classified as equity (Note 8 to the Consolidated Financial Statements) to be reclassified as a liability, effective January 1, 2005.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make certain estimates and assumptions. The

estimates and assumptions are based on the Company's experience combined with management's understanding of current facts and circumstances. These estimates may differ from actual results, and certain estimates are considered critical as they are both important to reflect the Company's financial position and results of operations and require significant or complex judgement on the part of management. The following is a summary of certain accounting estimates or policies considered critical by the management of the Company.

(a) Goodwill – Goodwill is tested for impairment annually and as part of this test the Company assesses the value of goodwill of its various reporting units. The Company's goodwill was tested in the second quarter of 2003 and no impairment in the value had occurred.

(b) Trade merchandise allowances – The Company provides for estimated payments to customers based on various trade programs and contracts, that includes payments upon attainment of certain sales volumes.

(c) Employee benefit plans – The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance (7.5%), salary escalation (4%), retirement ages of employees and expected health care costs. Discount rates (6%) used in actuarial calculations are based on long-term interest rates and can have a material effect on the amount of plan liabilities.

The effect on the Company's 2003 earnings of a decrease in selected assumptions, assuming no change in benefit levels, is as follows:

	Percentage point decrease	Higher 2003 expense (in millions)
Discount rate	0.50%	\$ 0.6
Expected return on assets	0.50%	\$ 0.4

ENVIRONMENT

The Company is conscious of its environmental responsibilities. Each of its businesses operates within the framework of an environmental policy entitled "Our Environmental Commitment" that is approved by the Board of Directors' Human Resources and Corporate Governance Committee. The Company's environmental program is monitored on a regular basis by this Committee, including compliance with regulatory requirements, the use of internal environmental specialists and independent external environmental analyses. The Company continues to invest in environmental infrastructure related to water, waste and air emissions to ensure that environmental standards continue to be met or exceeded, while implementing procedures to minimize the impact of operations on the environment. Expenditures related to current environmental requirements are not expected to have a material effect on the financial position or earnings of the Company.

QUARTERLY FINANCIAL INFORMATION

The following is a summary of unaudited quarterly financial information for the two years ended December 31, 2003 and 2002 (millions of dollars except share amounts).

2003	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Total
Sales	\$ 309	\$ 313	\$ 324	\$ 317	\$ 1,263
Net earnings	3.3	9.2	11.3	11.8	35.6
Net earnings per share (basic)	\$ 0.14	\$ 0.36	\$ 0.44	\$ 0.47	\$ 1.42
Net earnings per share (diluted)	\$ 0.14	\$ 0.35	\$ 0.44	\$ 0.46	\$ 1.39
Net earnings-before restructuring costs	\$ 8.1	\$ 9.2	\$ 11.3	\$ 11.8	\$ 40.4
Net earnings per share-before restructuring costs	\$ 0.34	\$ 0.36	\$ 0.44	\$ 0.47	\$ 1.61
Cash flow from operations	\$ (3)	\$ 5	\$ 30	\$ 34	\$ 66

2002	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Total
Sales	\$ 231	\$ 256	\$ 273	\$ 269	\$ 1,029
Net earnings	6.4	10.0	11.9	10.4	38.7
Net earnings per share (basic and diluted)	\$ 0.30	\$ 0.47	\$ 0.55	\$ 0.48	\$ 1.80
Cash flow from operations	\$ (1)	\$ 22	\$ 49	\$ 22	\$ 92

Management's Statement of Responsibility

Management recognizes its responsibility for conducting the Company's affairs in the best interests of all its shareholders. The consolidated financial statements and related information in the annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which involve the use of judgement and estimates in applying the accounting principles selected. Other financial information in the annual report is consistent with that in the consolidated financial statements.

The Company maintains systems of internal controls, which are designed to provide reasonable assurance that accounting records are reliable and to safeguard the Company's assets. The Company's independent auditors, KPMG LLP, Chartered Accountants, have audited and reported on the Company's consolidated financial

statements. Their opinion is based upon audits conducted by them in accordance with Canadian generally accepted auditing standards to obtain reasonable assurance that the consolidated financial statements are free of material misstatement.

The Audit Committee of the Board of Directors, all of whom are independent of the Company or any of its affiliates, meets periodically with the independent external auditors, the internal auditors and management representatives to review the internal accounting controls, the consolidated quarterly and annual financial statements and other financial reporting matters. Both the internal and independent external auditors have unrestricted access to the Audit Committee. The Audit Committee reports its findings and makes recommendations to the Board of Directors.



Richard A. Lan
President and Chief Executive Officer



Michael H. Vels
Chief Financial Officer

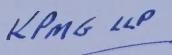
Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Canada Bread Company, Limited as at December 31, 2003 and 2002 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit

includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Toronto, Canada
February 24, 2004

Consolidated Balance Sheets

As at December 31
(in thousands of Canadian dollars)

	2003	2002
ASSETS		
Current assets		
Cash	\$ 11,528	\$ 12,389
Accounts receivable (Note 3)	44,699	59,911
Inventories (Note 4)	33,205	30,512
Future tax asset - current (Note 12)	5,838	5,274
Prepaid expenses	2,081	2,490
	97,351	110,576
Property and equipment (Note 5)	335,811	334,606
Other long-term assets	2,657	3,098
Goodwill and other intangibles	341,814	346,083
Future tax asset - non-current (Note 12)	2,321	—
	\$ 779,954	\$ 794,363
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued charges	\$ 151,577	\$ 159,937
Dividends payable	1,525	1,285
Income and other taxes payable	4,392	11,862
Current portion of long-term debt (Note 6)	26,941	7,954
	184,435	181,038
Long-term debt (Note 6)	126,710	274,435
Future tax liability (Note 12)	31,382	34,179
Shareholders' equity (Note 8)	437,427	304,711
	\$ 779,954	\$ 794,363

Contingencies and commitments (Note 16)

See accompanying Notes to Consolidated Financial Statements.

On behalf of the Board:

Richard Lan
Director

John L. Bragg
Director

Consolidated Statements of Earnings

As at December 31

(In thousands of Canadian dollars, except share amounts)

	2003	2002
Sales	\$ 1,262,811	\$ 1,028,571
Earnings from operations before restructuring costs	\$ 62,941	\$ 63,799
Restructuring costs (Note 9)	(7,422)	—
Earnings from operations	55,519	63,799
Other income (expense) (Note 10)	(11)	285
Earnings before interest and income taxes	55,508	64,084
Interest expense (Note 11)	8,355	3,766
Earnings before income taxes	47,153	60,318
Income taxes (Note 12)	11,520	21,564
Earnings before minority interest	35,633	38,754
Minority interest	—	57
Net earnings	\$ 35,633	\$ 38,697
Earnings per share – basic (Note 17)	\$ 1.42	\$ 1.80
Earnings per share – diluted (Note 17)	\$ 1.39	\$ 1.80
Weighted average number of shares (millions)	25.1	21.4

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Retained Earnings

As at December 31

(In thousands of Canadian dollars)

	2003	2002
Retained earnings, beginning of year:	\$ 247,746	\$ 214,189
Net earnings	35,633	38,697
Dividends declared (\$0.24 per share; 2002 - \$0.24 per share)	(6,100)	(5,140)
Retained earnings, end of year	\$ 277,279	\$ 247,746

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

As at December 31
(in thousands of Canadian dollars)

	2003	2002
CASH PROVIDED BY (USED IN)		
Operating activities		
Net earnings	\$ 35,633	\$ 38,697
Add (deduct) items not affecting cash:		
Depreciation	39,529	28,506
Minority interest	—	57
Future income taxes	(3,010)	108
Other	196	(295)
Change in non-cash operating working capital	(5,974)	25,112
	66,374	92,185
Financing activities		
Dividends paid	(5,860)	(5,140)
Increase in long-term debt	79,609	333,456
Decrease in long-term debt	(174,131)	(98,676)
Increase in share capital (Note 8)	106,000	—
	5,618	229,640
Investing activities		
Purchase of intangible assets	(1,279)	—
Additions to property and equipment	(63,792)	(20,678)
Proceeds from sale of property and equipment	1,146	817
Purchase of net assets of businesses, net of cash acquired (Note 15)	(8,928)	(288,910)
	(72,853)	(308,771)
Increase (decrease) in cash and cash equivalents	(861)	13,054
Cash and cash equivalents (bank indebtedness), beginning of year	12,389	(665)
Cash and cash equivalents, end of year	\$ 11,528	\$ 12,389
Supplemental cash flow information:		
Net interest paid	\$ 10,384	\$ 3,722
Net income taxes paid	23,235	18,464

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002 (Tabular amounts in thousands of Canadian dollars, except share amounts)

1. THE COMPANY

Canada Bread Company, Limited ("Canada Bread" or "the Company") and its subsidiaries operate in the bakery industry across North America and internationally. Its principal business is the manufacture and sale of bakery and pasta products, including fresh bread, rolls, bagels, and par-baked bread. Canada Bread was 68% owned by Maple Leaf Foods Inc. ("Maple Leaf") as at December 31, 2002. Maple Leaf's ownership interest increased to 84.7% in 2003.

2. SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies of the Company. The preparation of periodic financial statements necessarily involves the use of estimates and approximations. Should the underlying assumptions change, the actual amounts could differ from those estimates.

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries.

(b) Translation of foreign currencies

The accounts of foreign subsidiaries, associated companies and joint ventures are translated into Canadian dollars using the exchange rate in effect at the year end for assets and liabilities and the average exchange rates for the year for revenue and expenses. Exchange gains or losses on translation are deferred and included as a separate component in shareholders' equity until realized.

Where the Company enters into forward exchange contracts to hedge the principal and interest on related debt payable in foreign currencies, unrealized losses or gains on such contracts are matched with exchange gains or losses on the debt payable.

(c) Hedging arrangements

The Company enters into hedging arrangements to manage its exposure to currency, commodity price and interest rate fluctuations. The gains and losses on these hedging instruments are recognized in the consolidated financial statements in the same period and are matched with the same financial statement category as the item to which the hedged position relates. Any accrued amounts receivable and payable under the terms of such contracts are included in accounts receivable and accounts payable, respectively.

The Company designates certain of its U.S. dollar borrowings as a hedge of its net investment in its U.S. based businesses. Any exchange gain or loss on such designated borrowings is offset against the unrealized exchange gain or loss arising on translation of the U.S. dollar financial statements of these businesses and is included in the unrealized foreign currency adjustment account in shareholders' equity.

(d) Revenue recognition

The Company recognizes revenues from product sales upon transfer of title to customers. Revenue is recorded at the invoice price for each product net of estimated returns and sales incentives provided to customers. Sales incentives include various rebate and promotional

programs with the Company's customers, primarily rebates based on achievement of specified volume or growth in volume levels.

(e) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being determined substantially on a first-in, first-out basis. Included in the cost of inventory are direct product costs, direct labour and an allocation of variable and fixed manufacturing overhead including depreciation.

(f) Property and equipment

Property and equipment are recorded at cost including, where applicable, interest capitalized during the construction or development period.

Depreciation is calculated using the straight-line basis at the following rates, which are based on the expected useful lives of the assets:

Buildings	2-1/2% to 5%
Machinery and equipment	10% to 33%

(g) Deferred financing costs

Costs incurred to obtain long-term debt financing are amortized over the term of such debt and are included in interest expense for the year.

(h) Goodwill and other intangibles

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination. The Company assigns value to certain acquired identifiable intangible assets, primarily trademarks and delivery routes. Goodwill is not amortized and is tested for impairment annually in the second quarter. Definite life intangibles are amortized over their useful life.

(i) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Accordingly, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In addition, the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the enactment or substantive enactment date.

(j) Employee benefit plans

The Company accrues obligations under employee benefit plans and the related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Past service costs arising from plan amendments are

amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

Actuarial gains and losses in excess of 10% of the greater of the actuarial liabilities and the market value of assets and all gains and losses due to changes in plan provisions are amortized on a straight line basis over the expected average remaining service period of the active plan members. When a restructuring of a benefit plan gives rise to both a curtailment and settlement of obligations, the curtailment is accounted for prior to the settlement.

(k) Statement of cash flows

Cash and cash equivalents are defined as cash and short-term securities with maturities less than 90 days at the date of acquisition, less bank indebtedness.

(l) Recently issued accounting pronouncements

(i) Hedging Relationships

The CICA Accounting Guideline 13, "Hedging Relationships", establishes new criteria for hedge accounting and will apply to all hedging relationships in effect on or after January 1, 2004. To qualify for hedge accounting, the hedging relationship must be appropriately documented at the inception of the hedge and there must be reasonable assurance, both at the inception and throughout the term of the hedge, that the hedging relationship will be effective. Effectiveness requires a high correlation of changes in fair values or cash flows between the hedged item and the hedging item. The Company has formally documented and re-assessed all hedging relationships and determined that the new criteria have been met. All hedging instruments and relationships used by the Company as at December 31, 2003, met the new criteria relating to hedge effectiveness.

In the event that a designated hedge item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

(ii) Accounting for asset retirement obligations

In March 2003, the CICA issued a new accounting standard, Section 3110, "Accounting for Asset Retirement Obligations". The new standard requires companies to record the fair value of an asset retirement obligation as a liability in the period in which they incur a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development and/or normal use of the assets. Companies are also required to record a corresponding amount as an asset that is depreciated as a charge to earnings over the life of the asset. Companies are required to adopt Section 3110 for fiscal years beginning on January 1, 2004. The Company is assessing the impact of this new standard.

(m) Comparative figures

Certain 2002 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2003.

3. ACCOUNTS RECEIVABLE

Under a revolving securitization program, the Company has sold, with limited recourse, certain of its trade accounts receivable to financial institutions. The Company retains servicing responsibilities and assumes limited recourse obligations for delinquent receivables. At December 31, 2003, trade accounts receivable amounting to \$50 million (2002 - \$50 million) had been sold under these programs.

4. INVENTORIES

	2003	2002
Material held for production	\$ 11,094	\$ 7,784
Finished products	22,111	22,728
	<hr/>	<hr/>
	\$ 33,205	\$ 30,512

5. PROPERTY AND EQUIPMENT

	2003	2002
Land	\$ 32,131	\$ 25,337
Buildings	118,807	123,496
Machinery and equipment	357,843	361,698
Construction in progress	46,189	13,175
	<hr/>	<hr/>
	554,970	523,706
Less accumulated depreciation	219,159	189,100
	<hr/>	<hr/>
	\$ 335,811	\$ 334,606

6. LONG-TERM DEBT

	2003	2002
Revolving term facility (i)	\$ 78,324	\$ 9,500
Due to Maple Leaf (ii)	93,923	209,219
Note payable to Maple Leaf (ii)	—	75,000
Other	1,399	7,963
Obligations under capital leases	5	707
	<hr/>	<hr/>
	173,651	302,389
Less:		
Current portion	26,941	7,954
Portion classified as equity (ii)	20,000	20,000
	<hr/>	<hr/>
	46,941	27,954
	<hr/>	<hr/>
	\$ 126,710	\$ 274,435

(i) In July 2001, Canada Bread established a bank facility to finance the acquisition of Multi-Marques Inc. and provide liquidity for general corporate purposes. The facility is structured as follows:

- (a) a \$77.0 million (2002 - \$99.0 million) revolving/reducing term facility, maturing in 2005.
- (b) a committed four-year \$20.0 million revolving facility, maturing in 2005.

These facilities can be drawn in either Canadian or U.S. dollars and bear interest based on Bankers' Acceptance rates for Canadian dollar loans and LIBOR for U.S. dollar loans. At December 31, 2003, \$85.0 million (2002 - \$15.7 million) was utilized under this facility (including drawings of \$6.7 million (2002 - \$6.2 million) in respect of letters of credit).

(ii) Canada Bread has a \$169.0 million (2002 - \$215.0 million) revolving debt facility due to Maple Leaf. The facility was established in December 2002 to fund the acquisition of the Maple Leaf Bakery Group (Note 15) and to provide liquidity for general corporate purposes. This revolving facility is extendible, at the Company's option, each year, subject to a final maturity date of December 27, 2005. Interest paid to Maple Leaf under these facilities was \$2.3 million for 2003. These facilities bear interest at substantially the same rates as the facility described in (i) above.

At December 31, 2003, a total of \$128.1 million (2002 - \$209.2 million) was drawn. Netted against this amount is a \$34.2 million receivable related to the Company's five-year cross-

currency swap with Maple Leaf (Note 7(b)). The swap has a current unrealized gain of \$36.0 million in total, of which \$34.2 million represents the portion of the gain related to currency translation that must be recorded on the balance sheet. Under the terms of the debt facility, each party has the legal right to set off any amounts owed by it to the other party against any amounts receivable from the other party. Accordingly, the currency gain has been recorded as a reduction of long-term debt.

Canada Bread has an option to repay up to \$20.0 million of debt outstanding under this facility in common shares. As such, this amount has been classified as a separate component of shareholders' equity.

In December 2002, Canada Bread issued a promissory note to Maple Leaf in the amount of \$75.0 million. This promissory note was repaid in January 2003 from drawings under the bank facility described in (i) above.

In addition, the Company has undrawn demand overdraft facilities of \$10.0 million (2002 – \$22.6 million), which bear interest at short-term rates. At year end, there were no amounts outstanding under these facilities.

The Company's blended average effective cost of borrowing for 2003 was 3.2% (2002 – 3.1%), after adjusting for the payments made under swap contracts in place in 2003 (see Note 7).

Required repayments of long-term debt are as follows:

2004	\$ 26,941
2005	146,338
2006	142
2007	76
2008	—
Thereafter	154
	\$ 173,651

7. DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In the ordinary course of business, the Company enters into derivative financial instruments with Maple Leaf as its counter party to reduce underlying risks associated with foreign currency and interest rates.

(a) Foreign currency risk management

The Company uses foreign currency forward contracts and options to manage its currency exposures. The currency exposure relates primarily to U.S. dollar denominated export sales and U.S. dollar linked commodities, primarily flour.

At December 31, 2003, the Company had outstanding commitments to sell US\$10.1 million (2002 – nil) at an average rate of 1.3758.

(b) Interest rate risk management

The Company uses interest rate swaps to manage its exposure to interest rate fluctuations. At December 31, 2003, the Company had entered into interest rate swap contracts with Maple Leaf, having an aggregate notional amount of \$40.0 million (2002 - \$60.0 million) and maturity dates ranging from July 12, 2004 to July 12, 2005. The fixed rates payable by the Company under these contracts range from 3.89% to 4.40%. The floating rates are based on the three-month bankers acceptance rate.

Based on market values at December 31, 2003, the Company would have realized a loss of \$0.6 million (2002 - loss of \$0.8 million) if it terminated the above-noted swap agreements.

In 2003, the Company entered into a five year cross-currency swap with Maple Leaf to hedge U.S. dollar denominated assets. This swap requires Canada Bread to pay interest of 3.48% per annum on US\$140.0 million and receive interest of 4.45% per annum on Cdn\$219.6 million. Based on market values as at December 31, 2003, the Company would have realized a gain of \$36 million if it terminated the above-noted swap agreement. This amount has been recorded as a reduction of long-term debt (Note 6). Since this instrument was designated to hedge the currency translation on the Company's U.S. dollar denominated assets, the portion of the gain related to currency translation (\$34.2 million) has been recorded in the cumulative translation account.

(c) Commodity price risk management

The Company uses a variety of derivative instruments to manage its exposure to various commodity price fluctuations. Based on market values at December 31, 2003, the Company would have realized a gain of \$0.6 million (2002 - loss of \$9.0 million) to terminate these contracts.

(d) Fair value of financial assets and liabilities

Fair value of accounts receivable, accounts payable and accrued charges, and current portion of long-term debt approximates their carrying value due to their short-term nature.

The fair value of long-term indebtedness pursuant to the Company's facilities approximates its carrying value as it bears interest at floating rates.

8. SHAREHOLDERS' EQUITY

Shareholders' equity consists of the following:

	2003	2002
Share capital (25,416,812 common shares (2002 - 21,416,812))	\$ 142,965	\$ 36,965
Retained earnings	277,279	247,746
Unrealized foreign currency adjustment	(2,817)	—
Equity component of long-term debt (Note 6)	20,000	20,000
	\$ 437,427	\$ 304,711

The authorized share capital of the Company consists of an unlimited number of common shares.

On January 28, 2003, the Company issued four million shares to Maple Leaf from Treasury at \$26.50 per share in a private placement transaction. Proceeds from the financing of \$106 million were used to pay down debt owing by the Company to Maple Leaf (Note 6).

9. RESTRUCTURING COSTS

During the year, the Company recorded a \$7.4 million restructuring costs (\$4.8 million after tax), relating to plant closures and operational restructuring. The following table details the composition of the restructuring costs:

	2003
Employee termination and related costs	\$ 4,353
Facility exit costs	722
Other restructuring costs	988
	\$ 6,063
Asset Impairment	1,359
	\$ 7,422

The charge for asset impairment reflects the write down of certain capital assets which were either disposed of or have become impaired as a result of the restructuring.

Of the \$6.1 million in provisions, \$3.3 million was paid in 2003.

10. OTHER INCOME (EXPENSE)

	2003	2002
Gain (loss) on sale of property and equipment	\$ (196)	\$ 80
Other	185	205
	\$ (11)	\$ 285

11. INTEREST EXPENSE

	2003	2002
Interest expense on long-term debt	\$ 8,664	\$ 1,784
Other net interest expense (income)	(309)	1,982
	\$ 8,355	\$ 3,766

12. INCOME TAXES

Income tax expense varies from the amount that would be computed by applying the combined federal and provincial statutory income taxes rate as a result of the following:

	2003	2002
Income tax expense according to combined statutory rate of 35.3% (2002 – 38.6%)	\$ 16,623	\$ 23,283
Increase (decrease) in income taxes resulting from:		
Manufacturing and processing credit	(1,168)	(2,579)
Rate difference on foreign jurisdictions	(4,525)	—
Non-taxable gains	(17)	(11)
Large Corporations Tax	229	177
Other	378	694
	\$ 11,520	\$ 21,564

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31 are presented below:

	2003	2002
Future tax assets:		
Accrued assets	\$ 7,358	\$ 2,734
Loss carry forward	5,467	—
Other	—	3,419
	\$ 12,825	\$ 6,153
Future tax liabilities:		
Plant and equipment – differences in net book value and undepreciated capital cost	\$ 30,564	\$ 32,409
Taxes payable regarding accrued liabilities	—	—
Other	5,484	2,649
	\$ 36,048	\$ 35,058

Classified in the consolidated financial statements as:

Future tax asset - current	\$ 5,838	\$ 5,274
Future tax asset - non-current	2,321	—
Future tax liability - non-current	(31,382)	(34,179)
Net future tax liability	\$ (23,223)	\$ (28,905)

13. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

Information about the Company's defined benefit plans as at December 31 in aggregate, is as follows:

	2003	2002
Accrued benefit obligation:		
Balance, beginning of year	\$ 98,265	\$ 92,456
Current service cost	2,448	2,176
Interest cost	6,226	6,229
Benefits paid	(6,990)	(7,155)
Actuarial losses	3,574	2,692
Employee contributions	1,076	1,736
Plan amendments	—	131
Balance, end of year	\$ 104,599	\$ 98,265
Plan assets:		
Fair value, beginning of year	\$ 85,181	\$ 95,609
Actual return on plan assets	10,988	(5,649)
Employer contributions	2,557	746
Employee contributions	1,076	1,736
Benefits paid	(6,990)	(7,155)
Asset transfer to Company defined contribution plan	(2,436)	(106)
Fair value, end of year	\$ 90,376	\$ 85,181
Funded status - plan surplus (deficit)	\$ (14,223)	\$ (13,084)
Unamortized transitional amount	(9,004)	(9,782)
Unamortized investment gain	22,594	24,716
Unamortized prior service cost	1,220	1,021
Accrued benefit asset	\$ 587	\$ 2,871

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows as of December 31:

	2003	2002
Discount rate	6.00%	6.50%
Expected long-term rate of return on plan assets	7.50%	7.50%
Rate of compensation increase	4.00%	4.00%

The Company's net benefit plan expense for the year ended December 31 is as follows:

	2003	2002
Current service cost - defined benefit plan	\$ 2,448	\$ 2,176
Interest cost	6,226	6,229
Expected return on plan assets	(6,393)	(7,461)
Amortization of transitional obligation	(778)	(778)
Actuarial gain recognized	802	137
Amortization of prior service cost	95	207
Defined contribution plan cost	5,673	3,605
Net benefit plan expense	\$ 8,073	\$ 4,115

The Company has post-retirement benefit obligations of \$1.0 million that are fully accrued.

14. RELATED PARTY TRANSACTIONS

(a) Maple Leaf provides the Company with certain management services, including treasury, taxation, internal audit, accounting and access to bulk purchasing programs. Pursuant to a Management and Affiliation Agreement entered into in August 1995, the Company paid a management and affiliation fee of \$6.8 million (2002 - \$4.5 million) to Maple Leaf, which approximates the cost of providing these services.

(b) The Company receives certain information system services from Maple Leaf for a cost of \$3.5 million (2002 - \$2.3 million).

15. ACQUISITIONS

On July 4, 2003, the Company purchased the assets of a waffle manufacturer located in Richmond Hill, Ontario for \$6.2 million. The allocation of the purchase cost to the assets and liabilities acquired is preliminary.

In April 2002, the Company acquired the remaining 40% of the shares of Ben's Limited in Atlantic Canada to hold 100%.

In July 2002, the Company acquired all of the outstanding shares of Olafson's Baking Company Inc. of Delta, British Columbia. The initial purchase price was \$11.5 million with additional consideration of up to \$10.2 million payable, until February 28, 2004, depending on the attainment of certain financial targets. In 2003, the Company paid a further \$3.2 million in respect of these amounts. At December 31, 2003, a maximum remaining amount of \$7.0 million may be payable, which would result in additional goodwill.

In December 2002, Canada Bread purchased all of Maple Leaf's U.S. and U.K. bakery operations ("Maple Leaf Bakery Group"), for \$262.3 million, inclusive of debt assumption of \$10.7 million. These operations were consolidated effective December 31, 2002.

Details of net assets acquired and purchase adjustments in 2003 and 2002 are as follows:

	2003	2002	2002	2002
	Total	Maple Leaf Bakery Group	Other	Total
Cash	\$ —	(992)	737	(255)
Net working capital	(9,918)	2,792	(2,561)	231
Other long-term assets	56	845	(1,715)	(870)
Property & equipment	(2,524)	96,929	(6,254)	90,675
Goodwill & other intangibles	18,327	170,319	48,779	219,098
Long-term debt & debt due to parent company	—	(19,290)	(14)	(19,304)
Future income taxes	2,987	982	5,308	6,290
Minority interest	—	—	4,405	4,405
Purchase cost	\$ 8,928	251,585	48,685	300,270
Consideration:				
Cash	8,928	247,431	41,224	288,655
Accounts payable, accrued charges and long-term debt	—	4,154	7,461	11,615
	\$ 8,928	251,585	48,685	300,270

The following table provides details of the activity in the accrued restructuring liabilities associated with the acquired businesses for 2003.

	Employee termination costs	Other exit costs	Total
Balance at January 1, 2003	3,810	13,560	\$ 17,370
Provision	3,170	5,275	8,445
Cash payments	(3,172)	(6,627)	(9,799)
Balance at December 31, 2003	3,808	12,208	\$ 16,016

16. CONTINGENCIES AND COMMITMENTS

(a) The Company has been named as defendant in several legal actions and is subject to various risks and contingencies arising in the normal course of business. Management is of the opinion that the outcome of these uncertainties will not have a material adverse effect on the Company's financial position.

(b) In the normal course of business, the Company enters into sales commitments with various customers and suppliers. These commitments are for varying terms and can provide for fixed or variable prices. With respect to certain of its contracts, the Company has the right to acquire at fair value, and the suppliers have the right to sell back to the Company certain assets, which have an estimated fair value of \$17 million. The Company believes that these contracts serve to reduce risk, and it is not anticipated that losses will be incurred on these contracts.

(c) The Company has operating lease commitments in respect of property and equipment used in operations, which require minimum annual payments as follows:

2004	\$ 15,077
2005	10,135
2006	6,989
2007	3,999
2008	3,069
Thereafter	462
	\$ 39,731

17. EARNINGS PER SHARE

The following table sets forth the calculation of basic and diluted earnings per share:

	2003
Numerator:	
Net earnings	
Net earnings	\$ 35,633
Interest on convertible debt (Note 6)	461
Earnings available to common shareholders	\$ 36,094
Denominator:	
Weighted average common shares outstanding (in millions)	25,083
Effect of dilutive securities (in millions):	
Convertible debt	810
Weighted average shares - diluted (in millions) (i)	25,893
(i) For 2002, the convertible debt is not dilutive.	
Earnings per share:	
Basic	\$ 1.42
Diluted	1.39

Corporate Information

DIRECTORS

Michael H. McCain
Chairman of the Board

Richard A. Lan
President and Chief Executive Officer

John L. Bragg

Sarah A. Everett

Charles J. Mayer

G. Wallace F. McCain O.C.

J. Scott McCain

Thomas P. Muir

John F. Petch

CORPORATE OFFICE

10 Four Seasons Place
Etobicoke, Ontario M9B 6H7
Tel: (416) 622-2040
www.canadabread.ca

Stock Exchange Listing and Stock Symbol

The Company's common shares are listed on the Toronto Stock Exchange and trade under the symbol "CBY".

COMPANY INFORMATION

For public and investor relations inquiries, please call (416) 926-2000.

Copies of the Company's annual and quarterly reports, Annual Information Form and other disclosure documents filed with regulatory authorities are available from the Corporate Secretary upon request. Please contact: (416) 926-2000.

ANNUAL MEETING

The Annual Meeting of the Shareholders of Canada Bread Company, Limited will be held at the Sheraton Centre Hotel, City Hall Room, 123 Queen Street West, Toronto, Ontario on Wednesday, May 5, 2004, at 10:00 a.m.

AUDITORS

KPMG LLP
Toronto, Ontario

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

SHAREHOLDER INQUIRIES

Inquiries regarding dividends, change of address, transfer requirements or lost certificates should be directed to the Company's transfer agent:

Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, Ontario, Canada M5J 2Y1
Tel: (514) 982-7270
or 1-800-564-6253
or caregistryinfo@computershare.com

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